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The National D-Day Museum Foundation, Inc.

***Financial Statements as of and for the
Years Ended June 30, 2003 and 2002 and
Independent Auditors' Report***

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 12-3-03

THE NATIONAL D-DAY MUSEUM FOUNDATION, INC.

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Deloitte & Touche LLP
Suite 3700
701 Poydras Street
New Orleans, Louisiana 70139-3700

Tel: (504) 581-2727
Fax: (504) 561-7293
www.deloitte.com

**Deloitte
& Touche**

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of The National D-Day Museum Foundation, Inc.:

We have audited the accompanying statements of financial position of The National D-Day Museum Foundation, Inc. (a Louisiana non-profit corporation) as of June 30, 2003 and the related statements of activities and changes in net assets and cash flows for the year then ended. We previously audited and reported upon the financial statements for the year ended June 30, 2002, which condensed statements are presented for comparative purposes only. These financial statements are the responsibility of the management of The National D-Day Museum Foundation, Inc. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of The National D-Day Museum Foundation, Inc. as of June 30, 2003 and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2003, on our consideration of The National D-Day Museum Foundation, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

October 3, 2003

**Deloitte
Touche
Tohmatsu**

THE NATIONAL D-DAY MUSEUM FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2003 AND 2002

ASSETS	2003	2002
Cash and cash equivalents	\$ 1,555,124	\$ 611,293
Investments	7,606	234,095
Grants receivable	316,269	338,316
Pledges receivable	2,118,267	2,975,080
Gift shop inventory	426,830	468,298
Other assets	1,197,806	340,246
Fixed assets	24,375,560	21,845,446
Collections	<u>2,752,830</u>	<u>2,666,895</u>
 TOTAL ASSETS	 <u>\$32,750,292</u>	 <u>\$29,479,669</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 1,418,468	\$ 590,367
Notes payable	<u>586,150</u>	<u>673,750</u>
 Total liabilities	 <u>2,004,618</u>	 <u>1,264,117</u>
NET ASSETS:		
Unrestricted	28,602,407	25,215,472
Temporarily restricted	2,118,267	2,975,080
Permanently restricted	<u>25,000</u>	<u>25,000</u>
 Total net assets	 <u>30,745,674</u>	 <u>28,215,552</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$32,750,292</u>	 <u>\$29,479,669</u>

See notes to financial statements.

THE NATIONAL D-DAY MUSEUM FOUNDATION, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2003 AND 2002

	Unrestricted	Temporarily Restricted	Permanently Restricted (Endowment)	Total
		2003	2002	
REVENUES AND SUPPORT:				
Grants		\$ 4,170,953	\$ -	\$ 4,170,953
Contributions	\$ 2,153,087	85,000		2,238,087
Admissions	1,920,531			1,920,531
Gift shop	1,220,587			1,220,587
Memberships and other	317,037			317,037
Fund raising events and rentals	742,142			742,142
Investment income	23,263			23,263
Net assets released from restrictions	5,112,766	(5,112,766)		-
Total revenues and support	11,489,413	(856,813)		10,632,600
				11,188,911
EXPENSES:				
General and administrative	4,627,715			4,627,715
Marketing, public relations and events	738,062			738,062
Gift shop merchandise sold	718,739			718,739
Capital campaign fundraising	1,728,772			1,728,772
Professional fundraising and other	124,259			124,259
Legal, audit and consulting fees	103,863			103,863
Travel, meetings and conventions	61,068			61,068
Total expenses	8,102,478			8,102,478
INCREASE (DECREASE) IN NET ASSETS	3,386,935	(856,813)		4,449,430
NET ASSETS AT BEGINNING OF YEAR	25,215,472	2,975,080	25,000	28,215,552
NET ASSETS AT END OF YEAR	\$28,602,407	\$ 2,118,267	\$25,000	\$30,745,674
				\$28,215,552

See notes to financial statements.

THE NATIONAL D-DAY MUSEUM FOUNDATION, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2003 AND 2002

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 2,530,122	\$ 4,449,430
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,668,105	965,379
Decrease in pledges receivable	856,813	476,565
Decrease (increase) in grants receivable	22,047	(52,629)
Decrease (increase) in gift shop inventory	41,468	(33,404)
Increase in other assets	(857,560)	(193,599)
Increase (decrease) in accounts payable	828,101	(76,952)
Net cash provided by operations	<u>5,089,096</u>	<u>5,534,790</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of fixed assets	(4,198,219)	(4,201,053)
Purchase of collections	(85,935)	(644,765)
Decrease in investments—net	<u>226,489</u>	<u>36,249</u>
Net cash used in investing activities	<u>(4,057,665)</u>	<u>(4,809,569)</u>
CASH FLOWS FROM FINANCING ACTIVITIES—		
Net payments of notes payable	<u>(87,600)</u>	<u>(498,750)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	943,831	226,471
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>611,293</u>	<u>384,822</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,555,124</u>	<u>\$ 611,293</u>

See notes to financial statements.

THE NATIONAL D-DAY MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2003 AND 2002

1. ORGANIZATION AND OPERATIONS

The National D-Day Museum Foundation, Inc. (the "Museum") was established on December 2, 1991, to design, construct, and maintain a public museum located in New Orleans, Louisiana that represents a museum of the American experience during the World War II years, celebrates the American spirit, the teamwork, optimism, courage, and sacrifice of the men and women who won World War II and promotes the exploration and expression of these values by future generations. The Museum completed its initial phase of construction and opened in June, 2000. An expansion of the Museum devoted to the war in the Pacific Theatre opened in December, 2001. During 2003, the Museum was officially designated by Congress as America's National World War II Museum.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Museum have been prepared on the accrual basis of accounting. Significant accounting policies are summarized below.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Description of Net Assets Classification—Financial Accounting Standards Board Statement No. 117, "Financial Statements of Not-for-Profit Organizations," was adopted by the Museum effective January 1, 1996. This statement requires that net assets and changes in net assets be reported for three classifications - permanently restricted, temporarily restricted and unrestricted - based on the existence or absence of donor imposed restrictions.

The Museum reports gifts of cash and other assets as restricted support if they are received with donor imposed restrictions or requirements that limit the use of the donation. A donor restriction ends when a time restriction is met or a purpose restriction is accomplished. As restrictions are met, assets are reclassified to unrestricted net assets and reported as net assets released from restriction in the statement of activities. The permanently restricted classification is an endowment fund whose funds are invested in perpetuity. Earnings from these assets are periodically transferred to the Museum's operating funds.

Cash and Cash Equivalents—For purposes of the statement of cash flows, the Museum considers all short-term, highly liquid investments (including certificates of deposit) with an original maturity of three months or less when purchased to be cash equivalents.

Investments—Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the increase in unrestricted net assets unless the earnings or gains are restricted by donor or law.

Pledges Receivable and Contributions Received—Financial Accounting Standards Board Statement No. 116, “Accounting for Contributions Received and Contributions Made,” requires the recognition of contributions received as revenues in the period received and as assets, decreases in liabilities or expenses depending on the form of benefits received.

Gift Shop Inventory—Inventories are valued at cost (first-in, first-out) or market, whichever is lower.

Fixed Assets and Depreciation—Assets acquired are stated at cost, net of accumulated depreciation. Assets donated are carried at fair market value on date of donation, net of accumulated depreciation. Depreciation of buildings, exhibits, furnishings and equipment is provided over the estimated useful lives of the respective assets on the straight-line basis ranging from three years for equipment, 10 years for exhibits and 40 years for buildings.

Collections—At June 30, 2003, collections consist of two films commissioned by the Museum, the St. Louis Collection of German artifacts acquired in 1995, aircraft, tanks, certain military vehicles and miscellaneous artifacts. The Museum does not record depreciation on its collections because depreciation is not presently required to be recognized on individual works of art or historical treasures whose economic benefit or service potential is used so slowly that their estimated useful lives are extraordinarily long. It is the Museum’s policy to capitalize only those contributions purchased, not those donated.

Fundraising Expenses—All expenses associated with fundraising activities are expensed as incurred, including those expenses related to fundraising appeals in a subsequent year. During 2003, the Museum incurred expenses of approximately \$1.7 million to prepare for the launch of a major capital campaign having a goal initially established at \$150 million.

Donated Services—Volunteers have given extensive amounts of time and services to the Museum; however, no amounts are reflected in the financial statements for such services since no objective basis is available to measure the value of such services.

Income Taxes—The Museum is exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and, accordingly, no provision for income taxes has been reflected in the accompanying financial statements.

Reclassifications—Certain prior year amounts have been reclassified to conform with the 2003 presentation.

3. INVESTMENTS

A summary of the carrying value of the Museum’s investments at June 30, 2003 and 2002 follows:

	2003	2002
Money market funds	<u>\$ 7,606</u>	<u>\$ 234,095</u>

During the year ended June 30, 2002, realized and unrealized losses on investments were \$(27,942); none in the year ended June 30, 2003.

4. PLEDGES RECEIVABLE

Unconditional promises of donors to make contributions to the Museum are included in the financial statements as pledges receivable and revenue of the temporarily restricted net assets class after discounting projected future cash flows to the present value using a discount rate of 5%. Pledges receivable are expected to be collected in the following periods:

	June 30,	
	2003	2002
In one year or less	\$1,011,248	\$1,271,328
Between one and five years	1,700,568	2,467,210
In five years or greater		28,214
	<u>2,711,816</u>	<u>3,766,752</u>
Less discount	322,367	414,997
	<u>2,389,449</u>	<u>3,351,755</u>
Allowance for doubtful collections	271,182	376,675
	<u>2,118,267</u>	<u>\$2,975,080</u>

5. FIXED ASSETS

At June 30, 2003 and 2002, fixed assets consists of the following:

	2003	2002
Land	\$ 4,040,668	\$ 1,089,200
Buildings	17,767,965	17,672,938
Exhibits	2,799,506	2,799,506
Equipment	3,110,457	1,958,733
	<u>27,718,596</u>	<u>23,520,377</u>
Less accumulated depreciation	(3,343,036)	(1,674,931)
	<u>\$24,375,560</u>	<u>\$21,845,446</u>

6. GRANTS

In 2002, the Department of Defense awarded a grant of \$4,250,000 to fund capital expansion of the Museum, which includes the assembly of buildings and land needed for the expansion program. During the year ended June 30, 2003 and 2002, the Museum recognized revenue under this grant of \$3,652,051 and \$270,609, respectively. Total funds remaining available under this grant at June 30, 2003 amounted to \$327,340. The grant was extended for 90 days until September 17, 2003 by which date the remaining funds were fully expended. In October 2003, the Department of Defense awarded a grant of \$3.5 million to fund capital expansion of the Museum.

7. NOTES PAYABLE

In January 2002, the Museum refinanced a mortgage of \$710,250 on newly acquired buildings related to its capital expansion project. The mortgage bears interest at prime plus .75% (4.75% at June 30, 2003) and has monthly installments of \$7,300 plus interest until January 2005. The mortgage is collateralized by the first mortgage of the newly acquired buildings.

Principal maturities of mortgage at June 30, 2003 are as follows:

Year Ending
June 30

2004	\$ 87,600
2005	<u>498,550</u>
	<u>\$ 586,150</u>

Interest expense on the above borrowings totaled approximately \$33,462 and \$60,000 in the years ended June 30, 2003 and 2002, respectively.

8. COMMITMENTS

The Museum has contracted with a cruise ship company for the exclusive use of all passenger areas and spaces on the cruise ship for a cruise to Normandy to commemorate the 60th anniversary of the D-Day invasion of Europe on June 6, 2004. In order to secure the cruise ship rental commitment, the Museum was required to provide an irrevocable standby letter of credit. The Museum obtained a letter of credit in the amount of \$800,000 with a financial institution. This letter of credit expires on March 1, 2004. The Museum did not need to draw on the letter of credit as of June 30, 2003.

The cruise ship company required an initial deposit of approximately \$200,000. The Museum has recorded this amount in other assets on the statement of financial position. The Museum will be repaid once passengers have booked the cruise.

* * * * *



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON THE
AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

To the Board of Directors
of The National D-Day Museum Foundation, Inc.:

We have audited the financial statements of The National D-Day Museum Foundation, Inc. (the "Museum"), as of and for the year ended June 30, 2003, and have issued our report thereon dated October 3, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Museum's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Museum's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Museum in a separate letter dated October 3, 2003.

This report is intended solely for the information and use of the Board of Directors, management, the United States Army and the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

October 3, 2003



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND
INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO
EACH MAJOR FEDERAL AWARD PROGRAM AND ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

To the Board of Directors
of The National D-Day Museum Foundation, Inc.:

Compliance

We have audited the compliance of The National D-Day Museum Foundation, Inc. (the "Museum"), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The Museum's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Museum's management. Our responsibility is to express an opinion on the Museum's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Museum's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Museum's compliance with those requirements.

In our opinion, the Museum complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the Museum is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Museum's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the Museum's internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the Museum's internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of The National D-Day Museum Foundation, Inc. as of June 30, 2003, and have issued our report thereon dated October 3, 2003. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying *schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133* and is not a required part of the basic financial statements. This schedule is the responsibility of the management of The National D-Day Museum Foundation, Inc. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors, management, the United States Army and the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

October 3, 2003

THE NATIONAL D-DAY MUSEUM FOUNDATION, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2003

Federal Grantor	Federal CFDA #	Federal Expenditures
The U.S. Department of the Army - Defense Supply Service - Washington (DASW01-02-1-0011)		<u>\$3,459,000</u>

THE NATIONAL D-DAY MUSEUM FOUNDATION, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The accompanying statement of selected grant activity has been prepared on the accrual basis of accounting. Grant revenues are recorded for financial reporting purposes when The National D-Day Museum Foundation, Inc. (the "Museum"), has met the cost reimbursement or funding qualifications for the respective grants. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.

Accrued Reimbursement—Various reimbursement procedures are used for federal awards received by the Museum. Consequently, timing differences between expenditures and program reimbursements exist at the beginning and end of the year.

Payments to Subrecipients—There were no payments to subrecipients for the year ended June 30, 2003.

2. DESCRIPTION OF GRANTS

United States Department of the Army - Defense Supply Service - Washington

The Department of Defense provides the Foundation with funds on a reimbursement basis for expenditures incurred by the Foundation in connection with activities that meet requirements set forth in the grant agreement. Total grant awards were \$4,250,000 with funding from July 2002 to June 2003 amounting to \$3,459,000. Total funds remaining available under this grant at June 30, 2003 amounted to \$791,000. The grant was extended 90 days until September 17, 2003 by which time the remaining funds were fully expended.

THE NATIONAL D-DAY MUSEUM FOUNDATION, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2003

SUMMARY OF THE AUDITORS' RESULTS

- An unqualified opinion was expressed on the financial statements of the auditee.
- The statement that reportable conditions in internal controls were disclosed by the audit of the financial statements and whether any such conditions were material weaknesses is not applicable.
- The audit disclosed no instances of noncompliance that were material to the financial statements of the auditee.
- The statement that reportable conditions in internal controls over major programs were disclosed by the audit and whether any such conditions were material weaknesses is not applicable.
- An unqualified opinion was expressed on compliance with major programs.
- There were no findings which are required to be reported in accordance with Section 510(a) of Circular A-133.
- Major program for the year ended June 30, 2003 was:
 - U.S. Department of the Army
 - Defense Supply Service – Washington
 - (DASW01-02-1-0011)
- The dollar threshold used to determine major programs was \$300,000.
- The auditee did qualify as a low risk auditee.

SCHEDULE OF FINDINGS RELATED TO THE FINANCIAL STATEMENTS

There were no findings related to the financial statements for the year ended June 30, 2003.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

There were no findings related to the federal awards for the year ended June 30, 2003.

THE NATIONAL D-DAY MUSEUM FOUNDATION, INC.

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS YEAR ENDED JUNE 30, 2003

There were no findings noted in prior year.

Deloitte & Touche LLP
Suite 3700
701 Poydras Street
New Orleans, Louisiana 70139-3700

Tel: (504) 581-2727
Fax: (504) 561-7293
www.deloitte.com

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**Deloitte
& Touche**

October 3, 2003

The Board of Directors
The National D-Day Museum Foundation, Inc.
New Orleans, Louisiana

Dear Members of the Board of Directors:

In planning and performing our audit of the financial statements of The National D-Day Museum Foundation, Inc. (the "Museum") for the year ended June 30, 2003 (on which we have issued our report dated October 3, 2003), we considered its internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the Museum's internal control. Our consideration of the Museum's internal control would not necessarily disclose all matters in the Museum's internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A description of the responsibility of management for establishing and maintaining internal control, and the objectives and inherent limitations of internal control, is set forth in the attached Appendix, and should be read in conjunction with this report. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the Museum's internal control and its operations that we consider to be material weaknesses as defined above.

We did note other matters related to the Museum's internal control and certain other accounting, administrative, and operating matters. Our comments are presented in Exhibit I and are listed in the table of contents thereto. The status of our prior year management letter comments is presented in Exhibit II.

This report is intended solely for the information and use of the board of directors, management, others within the organization, the State of Louisiana Legislative Auditor and officials of applicable federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss these comments with you and, if desired, to assist you in implementing any of the suggestions.

Yours truly,

Deloitte & Touche LLP

Deloitte
Touche
Tohmatsu

THE NATIONAL D-DAY MUSEUM FOUNDATION, INC.

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THE NATIONAL D-DAY MUSEUM FOUNDATION, INC.

EXHIBIT I

ACCOUNTING, OPERATIONAL AND ADMINISTRATIVE COMMENTS

Account Reconciliations

Observation

It was noted during the current year audit that account reconciliations were not performed routinely for fixed assets and accounts payable. This resulted in numerous audit adjustments.

Recommendation

Account reconciliations need to be performed in order to accurately reflect the balances on the general ledger. In order to prevent misstatements of fixed assets and accounts payable in the financial statements, and to maintain a better control and safeguard of the company's assets, it is important to reconcile these accounts monthly.

Management's Response

The use of temporary help and outside consultants to supplement a staffing deficiency in the accounting department last year led to an erosion of some monthly accounting procedures. These are now being more closely monitored and will be performed on a regular basis, including the monthly reconciliation of fixed assets and accounts payable.

Reconciliation of Revenue

Observation

In reviewing controls over the receipt and recording of admissions revenue and gift shop sales revenue, we noted that the individual responsible for bank deposits, the Director of Accounting (the "Director"), is also primarily responsible for testing the underlying revenue reports and insuring the overall integrity of the accounting records. For any business enterprise that derives significant amounts of cash receipts from sources other than routine trade receivables, there exists a control risk that revenues could be intercepted prior to accountability being established in the general ledger. While admissions revenue is captured by the Select Ticketing Pass System and is reconciled to the daily cash receipts of each ticketing agent by the ticket sales manager, the admissions system does not interface with the general ledger. Similarly, a daily report of gift shop sales activity is prepared by the gift shop manager but the gift shop system does not interface with the general ledger. The Director tests the preparation of the revenue reports in the process of the preparation of the daily deposit. The Director's assistant records revenue in the general ledger based on the revenue reports and deposit slips provided to her by the Director.

Recommendation

Controls would be improved if the Director were not responsible for handling cash receipts prior to their initial recording and preparing the deposit slip. Given the limited number of accounting personnel, it may not be practicable to exclude the Director from this function. In order to mitigate this control weakness we suggest the following:

- 1) The Director's part-time assistant should be responsible for testing the preparation of the daily revenue reports of admissions and gift shop sales as part of the process of recording revenues in the general ledger. The Director's testing of these reports could be limited to determining that the totals balance to the daily deposit.
- 2) The part-time assistant should also be primarily responsible for reconciling the bank account monthly. At present, this responsibility is shared with the Director.

Management's Response

Staffing requirements of the accounting department are currently under review, with recruitment for the currently vacant Director of Accounting position to begin within the next few weeks. The role of the accounting assistant and continuation of a possible part-time position in the department will be reviewed to achieve the necessary segregation of duties to achieve proper control procedures.

Purchase Authorizations – Gift Shop

Observation

At the present time, gift shop inventory items are ordered by the gift shop personnel and the invoices relating to those purchases are sent directly to the gift shop. Once the invoices are matched to purchase orders and receiving documents, they are forwarded to Accounting for payment. The Museum has no formal purchase order system to pre-authorize expenditures for gift shop inventory. Under the current system, approval is not gathered until the item has been received and the invoice is presented for payment.

Recommendation

Gift shop personnel have control over the purchasing of inventory, processing of payment requests and custody of merchandise. We recommend that additional checks and balances be instituted to strengthen internal controls in this area. Pre-authorization by the Director of purchases over a certain threshold should be considered. Also, given the degree of access to both inventories and the underlying records, controls over inventory should be strengthened and gross margins should be reviewed and monitored monthly. The investment in gift shop inventory represents the equivalent of approximately seven months of sales activity.

Management's Response

Management has instituted a system, which provides for a pre-authorization of inventory purchases in excess of \$2,000. Such pre-authorization provides an additional layer of oversight to ensure that excessive inventories are not being accumulated. The Museum will shift day-to-day oversight of the gift shop operations to the Chief Financial Officer, who will authorize purchases above the \$2,000 threshold, monitor compliance with the existing policies, regularly analyze gross profit margins, increase analysis of inventory levels and aging, and review ordering and cash handling procedures. The current level of segregation of the shipping and receiving process from the purchasing process will also be reviewed and improved where possible.

Cross Training of Employees

Observation

The Accounting Department's employees are not cross-trained to perform additional duties. When there is turnover in the Accounting Department, which occurred in the past year, other employees are not always knowledgeable of how to perform the duties of the former employee or how to retrieve such employee's computer files. The cross training of employees can provide many benefits, which include:

- An increase in efficiency when other accounting personnel take time off
- Reduction in duplication of effort
- Enhanced awareness of the entire accounting process by each accounting employee
- Facilitating the transition of new accounting employees

Recommendation

Personnel within the accounting department should be cross-trained, at a minimum, in other accounting areas in which they typically have no involvement.

Management's Response

The completion of staff recruitment in the accounting department will be followed by cross training to ensure that, among the CFO, Director of Accounting and Asst. Dir. of Accounting, all procedures can be performed by at least two individuals. This will be facilitated by the formal training sessions we will receive as part of the upgrade to our accounting software which will initially include two personnel. The presence of increased tenure among the department staff will also greatly contribute to the ability to initiate and maintain procedural ability redundancies.

THE NATIONAL D-DAY MUSEUM FOUNDATION, INC.

EXHIBIT II

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS JUNE 30, 2002

The following is a summary of management letter recommendations for the year ended June 30, 2002 and the status of implementation thereof:

	Implemented	Partially Implemented	Not Implemented
<u>ACCOUNTING, OPERATIONAL AND ADMINISTRATIVE COMMENTS</u>			
Reconciliation of Revenue			X
Purchase Authorizations		X	

APPENDIX

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL

The following comments concerning management's responsibility for internal control and the objectives and inherent limitations of internal control are adapted from the Statements on Auditing Standards of the American Institute of Certified Public Accountants.

Management's Responsibility

Management is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls.

Objectives

The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America.

Limitations

Because of inherent limitations in any internal control, misstatements due to errors or fraud may occur and not be detected. Also, projection of any evaluation of internal control to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.